No. 14-1520

# In the Supreme Court of the United States

STRYKER CORPORATION, ET AL., PETITIONERS

*v.*

ZIMMER, INC., ET AL.

*ON WRIT OF CERTIORARI*
*TO THE UNITED STATES COURT OF APPEALS*
*FOR THE FEDERAL CIRCUIT*

## REPLY BRIEF FOR THE PETITIONERS


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## TABLE OF CONTENTS

Page

A. The Federal Circuit has erred in treating willfulness as a strict precondition for enhancement. ..... 1

B. The Federal Circuit has erred in interpreting willfulness. ..... 7

1. The Federal Circuit's current approach was not ratified in the America Invents Act. ..... 9

2. The Federal Circuit's current approach is not drawn from *Safeco*. ..... 12

3. The Federal Circuit's current approach is poor policy. ..... 16

C. The Federal Circuit has erred in its burden of proof and standard of review. ..... 21

Conclusion ..... 23

## TABLE OF AUTHORITIES

Page(s)

Cases

*Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs.*, 682 F.3d 1003 (Fed. Cir. 2012) ..... 10

Cases—Continued:

*Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs., Inc.*,
776 F.3d 837 (Fed. Cir. 2015) ..... 22

*Bruesewitz* v. *Wyeth LLC*,
562 U.S. 223 (2011) ..... 11

*Carnegie Mellon Univ.* v. *Marvell Tech. Grp., Ltd.*,
807 F.3d 1283 (Fed. Cir. 2015) ..... 18

*Cent. Bank of Denver, N.A.* v. *First Interstate Bank of Denver, N.A.*,
511 U.S. 164 (1994) ..... 16

*Clark* v. *Wooster*,
119 U.S. 322 (1886) ..... 5

*Dean* v. *Mason*,
61 U.S. 198 (1857) ..... 4

*Enter. Mfg. Co.* v. *Shakespeare Co.*,
141 F.2d 916 (6th Cir. 1944) ..... 14

*Florida Prepaid Postsecondary Educ. Expense Bd.* v. *College Sav. Bank*,
527 U.S. 627 (1999) ..... 7

*Gen. Motors Corp.* v. *Devex Corp.*,
461 U.S. 648 (1983) ..... 2

*Guyon* v. *Serrell*, 1 Blatchf. 244
(C.C.S.D.N.Y. 1847) ..... 14

*Halo Elecs., Inc.* v. *Pulse Elecs., Inc.*,
769 F.3d 1371 (Fed. Cir. 2014) ..... 10

*Herman & MacLean* v. *Huddleston*,
459 U.S. 375 (1983) ..... 21

*iLOR, LLC* v. *Google, Inc.*,
631 F.3d 1372 (Fed. Cir. 2011) ..... 2, 18

Cases—Continued:

*Minemyer* v. *R-Boc Representatives, Inc.*,
2012 WL 2155240 (N.D. Ill. June 13, 2012) ..... 18

*N.L.R.B.* v. *Bildisco & Bildisco*,
465 U.S. 513 (1984) ..... 6

*Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*,
134 S. Ct. 1749 (2014) ..... 2, 3, 21

*Russello* v. *United States*,
464 U.S. 16 (1983) ..... 9

*Safeco Ins. Co.* v. *Burr*,
551 U.S. 47 (2007) ..... 12, 13, 14

*Seagate Tech., LLC, In re*
497 F.3d 1360 (Fed. Cir. 2007) ..... 5, 8, 10

*Seymour* v. *McCormick*,
57 U.S. 480 (1853) ..... 4

*Shatterproof Glass Corp.* v. *Libbey-Owens Ford Co.*,
758 F.2d 613 (Fed. Cir. 1985) ..... 21

*Smith* v. *Wade*,
461 U.S. 30 (1983) ..... 16

*TS Tech USA Corp., In re*
551 F.3d 1315 (Fed. Cir. 2008) ..... 20

*Underwater Devices, Inc.* v. *Morrison-Knudsen Co.*,
717 F.2d 1380 (Fed. Cir. 1983) ..... 8

*United States* v. *Illinois Cent. R.R. Co.*,
303 U.S. 239 (1938) ..... 15

*United States* v. *Murdock*,
290 U.S. 389 (1933) ..... 15

Cases—Continued:

*Wilden Pump & Eng'g Co.* v. *Pressed & Welded Products Co.*, 655 F.2d 984 (9th Cir. 1981) ..... 14

*Wilson* v. *Seiter*, 501 U.S. 294 (1991) ..... 22

Statutes

15 U.S.C. 1117(a) ..... 2

17 U.S.C. 504(c)(2) ..... 2

28 U.S.C. 2201 ..... 20

35 U.S.C.
284 ..... 1, 2
285 ..... 2
298 ..... 9, 16

Patent and Plant Variety Protection Remedy Clarification Act, 106 Stat. 4230 (1992) ..... 6

Other Authorities

157 Cong. Rec.
2857 (2011) ..... 10
2859 (2011) ..... 10
3401 (2011) ..... 10

157 Cong. Rec. S1374 (daily ed. Mar. 8, 2011) ..... 12

*Black's Law Dictionary* (8th ed. 2004) ..... 13

H.R. Rep. No. 112-98 (2011) ..... 10

Patent Reform Act of 2007, H.R. 1908, 110th Cong. ..... 11

Patent Reform Act of 2011, S. 23, 112th Cong. ..... 9

Other Authorities—Continued:

Jason A. Rantanen, *An Objective View of Fault in Patent Infringement*, 60 Am. U. L. Rev. 1575 (2011) ..... 14

*Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 3 (1946) ..... 6

Restatement (Second) of Torts:
Vol. 2 (1965) ..... 13
Vol. 4 (1979) ..... 15

*Review of Recent Judicial Decisions on Patent Law: Hearing Before H. Subcomm. on Intellectual Prop., Competition, & the Internet*, 112th Cong. 14 (2011) ..... 10

S. Rep. No. 111-18 (2009) ..... 11

## REPLY BRIEF FOR THE PETITIONERS

Zimmer basically ignores the text of 35 U.S.C. 284, mentioning it only once (at 19) in its entire brief. And for good reason, because Section 284 does not make willfulness a prerequisite to enhanced damages, much less willfulness as the Federal Circuit understands that requirement. On any plausible conception, the conduct at issue in this case—intentional copying with no contemporaneous, reasonable belief in invalidity—should be subject to enhanced damages. That type of behavior historically was at the core of the enhancement provision. But the Federal Circuit consistently lets such conduct off the hook based on a convoluted doctrine that exculpates any infringer, no matter how culpable, who is able to develop a minimally plausible post hoc defense. Zimmer defends the Federal Circuit's approach on three basic grounds: it has been ratified by Congress, is drawn from this Court's decision in *Safeco*, and is desirable for policy reasons. None of those arguments is correct.

### A. The Federal Circuit Has Erred In Treating Willfulness As A Strict Precondition For Enhancement.

1. The text of Section 284, which provides simply that the district court "may increase the damages up to three times the amount found or assessed," does not require that the court make any particular finding before enhancing damages. Zimmer nevertheless reads Section 284 as a purely "punitive sanction" that

requires "a threshold finding of willful or wanton infringement." Br. 11. Other statutes contain those kinds of limitations: the Copyright Act permits enhancement of damages if the district court finds that the "infringement was committed *willfully*," 17 U.S.C. 504(c)(2) (emphasis added), whereas the Lanham Act omits any willfulness requirement for the enhancement of damages but specifies that the enhancement "shall constitute compensation and not a penalty," 15 U.S.C. 1117(a). If Congress had intended Section 284 to serve only punitive purposes, or to punish only willful infringement, it would have said so.

Zimmer also has no persuasive answer to this Court's reasoning in *General Motors Corp.* v. *Devex Corp.*, 461 U.S. 648 (1983), and *Octane Fitness, LLC* v. *ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). In both cases, this Court rejected atextual limits or preconditions on discretionary remedies in 35 U.S.C. 284 and 285. Zimmer responds (Br. 33-34) that, although the Federal Circuit's two-part test for willfulness is functionally identical to the two-part test for exceptionalness that this Court set aside in *Octane*, the tests have different doctrinal origins. The Federal Circuit has never thought that relevant; it treats the tests as the same. See, *e.g.*, *iLOR, LLC* v. *Google, Inc.*, 631 F.3d 1372, 1377 (2011). Regardless, it does not matter if the Federal Circuit drew its equivalent tests from two different sources—because neither source is consistent with the statutory text.

Zimmer also argues (Br. 31-32) that enhanced damages are punitive whereas fee awards are compensatory. As explained below, Zimmer's premise is false: enhanced damages can be used to compensate patentees in certain circumstances, just as fee awards can punish litigation misconduct. See *infra*, pp. 4-5;

*Octane*, 134 S. Ct. at 1756. But even if Section 284's enhancement provision were purely punitive, that would only support limiting its application to misconduct greater than ordinary negligence—which is precisely the test that Stryker advocates for punitive enhancements. See U.S. Br. 16-17.

2. Zimmer's primary argument (Br. 13-19, 24-29, 30-31) for dispensing with *General Motors* and *Octane* is that a willfulness prerequisite was settled in the early case law and was implicitly ratified by Congress when it enacted the 1946 and 1952 Patent Acts. But there was no settled willfulness prerequisite for Congress to ratify in either 1946 or 1952, because courts had enhanced damages for reasons other than willful infringement. To be sure, when courts enhanced for punitive reasons, they overwhelmingly did so only to punish conduct that was more than negligent. That limitation, however, provides no basis for *Seagate* and its progeny, because the traditional conception of willfulness focused on the infringer's conduct and state of mind at the time of infringement. See U.S. Br. 25.

a. Beginning with the conversion to discretionary enhancement in 1836 and continuing through the 1952 statutory reorganization, the Patent Act expressly required district courts to enhance "according to the circumstances of the case," without imposing any prerequisite on their exercise of discretion. Stryker Br. 4-5 (quoting 1836 and 1870 Patent Acts). Zimmer correctly acknowledges (Br. 18) that the 1952 revisions were not substantive, and thus the Patent Act should continue to be read as requiring enhancement based on case-specific circumstances.

Consistent with that mandate, from 1836 through at least the 1960s, district courts determined whether to enhance damages by conducting a single weighing

of the aggravating and mitigating circumstances in any particular case. During that 130-year period, Zimmer and its amici do not identify a single case—not even one—in which a district court first examined willfulness and then conducted a separate weighing of other factors. Needless to say, none of the cases employed an approach remotely akin to the Federal Circuit's current three-stage approach (*i.e.*, objective recklessness, then subjective bad faith, followed by discretionary weighing).

b. Zimmer focuses (Br. 13-14) solely on cases in which courts enhanced damages to punish highly culpable infringement. To be sure, that was one very important purpose of enhancement. When a plaintiff claimed that the nature of the defendant's infringement warranted punishment, courts consistently required that the infringement have been more than merely negligent. The question was whether, based on what the defendant knew or should have known at the time of its infringement, it acted with intentional or reckless disregard for the patentee's rights. See Stryker Br. 36, 46, 49.

In nearly all of the earlier cases, the district court's determination on that point was dispositive, for the simple reason that there were no other considerations at issue. The plaintiff did not allege any misconduct other than the infringement, nor claim that its compensatory damages were inadequate absent enhancement. Accordingly, many courts, including this Court, sometimes associated enhanced damages with willful infringement. See, *e.g.*, *Dean* v. *Mason*, 61 U.S. 198, 203 (1857); *Seymour* v. *McCormick*, 57 U.S. 480, 488 (1853). But this Court and others also recognized that, to the extent additional considerations were at play, district courts had the discretion to consider

them. See, *e.g.*, *Clark* v. *Wooster*, 119 U.S. 322, 326 (1886).[1] Looking at the entire corpus of cases from this Court and the lower courts, the culpability of a defendant's infringement was only a factor in the totality analysis, though often the determinative one.

c. By focusing on cases involving willful infringement, Zimmer largely ignores cases in which courts enhanced damages for compensatory rather than punitive purposes. See, *e.g.*, Stryker Br. 30 (collecting cases). And Zimmer wholly ignores cases in which courts enhanced damages to punish misconduct other than simply the willfulness of infringement—for instance, the defendant's subsequent efforts to conceal its infringement. See, *e.g.*, Stryker Br. 31-32.

Those purposes remain relevant today. In a small set of cases, district courts should have the discretion to enhance damages for reasons other than the willfulness of the defendant's infringement. For example, if a district court declines to grant an injunction because doing so would be against the public interest, and prospective royalties are difficult to calculate, it might enhance damages to compensate for future infringement. See *In re Seagate Tech., LLC*, 497 F.3d 1360, 1378 (Fed. Cir. 2007) (Gajarsa, J., concurring). Or a court might enhance damages in order to punish misconduct distinct from the infringement. See Pet. App. 118a-119a ("[A]lthough Zimmer did not attempt to hide the entirety of its misconduct, it did attempt to prevent Stryker from discovering certain aspects of

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[1] Zimmer characterizes (Br. 14-15) as dicta this Court's decisions approving enhancement for reasons other than willful infringement. But *all* of the cases that Zimmer cites for a willfulness prerequisite similarly address the subject only in dicta, and some do not even address the trebling provision at all. *Id.* at 11-13.

its infringement in the run up to trial."). The fact that those cases will be rare does not mean that district courts would *per se* abuse their discretion by awarding enhancements in them.[2]

d. Because courts enhanced damages in patent infringement cases for both compensatory reasons and for punitive reasons other than willful infringement, there was no formalistic willfulness prerequisite at the time of the 1946 or 1952 Patent Act. See *N.L.R.B.* v. *Bildisco & Bildisco*, 465 U.S. 513, 525 (1984) ("Congress cannot be presumed to have adopted one standard over the other without some affirmative indication of which it preferred."). Zimmer focuses on the legislative history of the 1946 Act, but that history actually makes clear that Congress did *not* ratify a willfulness requirement. Zimmer cherry-picks (Br. 17-18) statements by two Representatives and two witnesses that enhanced damages would be available in cases of willful infringement, but none characterized it as a prerequisite. And Zimmer ignores statements by Representatives and witnesses that enhancement could serve a compensatory function in cases where ordinary damages would be inadequate. See *Recovery in Patent Infringement Suits: Hearing on H.R. 5231 Before the H. Comm. on Patents*, 79th Cong. 3 (1946) (Rep. Henry reading witness testimony into the record); *id.* at 15 (American Bar Association witness; Rep. Lanham).

e. Finally, apart from its argument that Congress ratified a willfulness prerequisite in either 1946 or 1952, Zimmer also relies (Br. 23) on the Patent and

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[2] Enhancement, of course, is not equivalent to trebling. Trebling is the maximum, and in many cases it will be appropriate for the court to award far less.

Plant Variety Protection Remedy Clarification Act, 106 Stat. 4230 (1992), in an effort to show that a much later Congress understood Section 284 to incorporate a willfulness requirement. This Court, of course, invalidated the Act in *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*, 527 U.S. 627 (1999). Even setting aside that the Act is no longer law, Zimmer argues that Congress attempted to subject States to enhanced damages on the understanding that such damages would be reserved for flagrant cases because of the willfulness requirement. Stryker agrees that, in cases where Section 284 is invoked to punish infringement, courts should award enhanced damages only if the infringement was intentional or reckless. Zimmer is the one arguing that even flagrant misconduct is not subject to enhanced damages if the infringer can concoct a post hoc defense. Congress has never expressed any support for *that* sentiment.

### B. The Federal Circuit Has Erred In Interpreting Willfulness.

The regime for enhanced damages worked well for nearly 150 years before the Federal Circuit began layering artifice on Section 284—and Zimmer does not contend otherwise. But whether there is any textual or historical basis for engrafting a willfulness requirement onto Section 284, Stryker readily acknowledges that the primary purpose of enhanced damages is to punish or deter intentional or reckless infringement. See Stryker Br. 35-36; U.S. Br. 14, 18. Limiting the application of Section 284 to classic willful infringement would capture the vast bulk of cases in which enhanced damages are warranted, including this one. The key point is that a willfulness require-

ment must reflect what courts traditionally examined: whether the infringement was intentional or reckless based on what the defendant knew or should have known at the time. See U.S. Br. 25.

Abandoning that traditional approach has harmed both patentees and the patent system as a whole. The Federal Circuit began by mistakenly lowering the bar for willfulness to a standard "akin to negligence" in *Underwater Devices, Inc.* v. *Morrison-Knudsen Co.*, 717 F.2d 1380 (1983). *Seagate*, 497 F.3d at 1371. The Federal Circuit then overcompensated by raising the bar too high in *Seagate* and its progeny. The court of appeals has adopted a test for willfulness that excludes intentional infringement, deems post hoc defenses sufficient to bar enhanced damages, and reserves for itself de novo review of the reasonableness of those defenses. The net result is that the Federal Circuit currently allows most highly culpable infringers to evade enhanced damages.

*Seagate*'s divergence from the traditional approach is starkest with respect to the worst type of infringement: deliberate copying of a known patent with no reason to believe that the patent is invalid. That is precisely this case, according to the jury and the district court. See Pet. App. 51a, 78a-79a. Such conduct was universally deemed worthy of enhanced damages in the pre-Federal Circuit era, as even Zimmer acknowledges (Br. 22)—and yet the Federal Circuit nevertheless held here that Zimmer is not even eligible for an enhancement. That outcome cannot be justified as a matter of congressional ratification, this Court's decision in *Safeco*, or public policy.

### 1. The Federal Circuit's Current Approach Was Not Ratified In The America Invents Act.

The Federal Circuit decided *Seagate* in 2007, and thus Zimmer's arguments for ratification depend entirely on the America Invents Act (AIA), which was enacted in 2011. But the AIA does not codify the *Seagate* test for willfulness or even a willfulness prerequisite at all. In fact, Congress expressly considered both options and declined to adopt either. See Patent Reform Act of 2011, S. 23, 112th Cong. at 35-36 (2011) (reported); see also *Russello* v. *United States*, 464 U.S. 16, 23-24 (1983) ("Where Congress includes limiting language in an earlier version of a bill but deletes it prior to enactment, it may be presumed that the limitation was not intended."). Zimmer is thus left to draw indirect inferences from two sources: a provision of the Act addressing opinions of counsel, 35 U.S.C. 298, and the Act's general legislative history. Neither source supports the claim that Congress implicitly approved the *Seagate* test in the AIA.

a. Section 298 provides that a defendant's failure to obtain an opinion of counsel, or to present such an opinion to the fact-finder, may not be used to demonstrate "willfulness." But as Pulse candidly acknowledges (Br. 25), willfulness has a role to play on either side's approach, whether it is a factor in the totality analysis or a strict prerequisite. Section 298 simply says that, to the extent a jury or the court is determining willfulness, it should not consider the defendant's failure to obtain or produce a legal opinion. Section 298 does not signal that courts should treat willfulness as a prerequisite, let alone that they should do so using *Seagate*'s two-step test for willfulness.

b. Zimmer thus devotes the bulk of its argument (Br. 26-29) to the AIA's legislative history. At the time of that debate, there was no well-established regime for Congress to ratify. *Seagate* was decided after hearings on patent reform had already begun; it overturned nearly a quarter-century of Federal Circuit precedent since *Underwater Devices*; and it expressly left "it to future cases to further develop the application" of the new standard. 497 F.3d at 1371. Cases following *Seagate* accepted that invitation and further restricted the standard by treating post hoc defenses as dispositive, see, *e.g.*, *Halo Elecs., Inc.* v. *Pulse Elecs., Inc.*, 769 F.3d 1371, 1382 (Fed. Cir. 2014), and establishing a de novo standard of review for objective recklessness, see *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs.*, 682 F.3d 1003, 1005, 1008 (Fed. Cir. 2012). Neither Zimmer nor its congressional amici even attempt to argue that those aspects of the Federal Circuit's current framework have been ratified by Congress. Nor do they point to any case in which this Court has found ratification in such a rapidly evolving and unsettled area of law.

Moreover, the legislative record does not even demonstrate that Congress intended to ratify the then-existing regime. The portions of the record on which Zimmer and its amici rely show only one thing: some Members of Congress believed that *Underwater Devices* had erred by imposing an affirmative duty of care on patent owners to avoid infringement, and they were glad that *Seagate* had discarded what was essentially a negligence standard for enhanced damages.[3]

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[3] See Zimmer Br. 27-29 (citing, *e.g.*, H.R. Rep. No. 112-98, pt. 1, at 39 (2011); 157 Cong. Rec. 2857, 2859, 3401 (2011); *Review of Recent Judicial Decisions on Patent Law: Hearing Before H. Sub-*

Stryker could not agree more: *Underwater Devices* was just as inconsistent with the history of Section 284 as *Seagate*. What the legislative record does not show, however, is any affirmative intent to ratify *Seagate*'s three-stage approach to enhancement (*i.e.*, objective recklessness, subjective bad faith, discretionary weighing). The six congressional amici claim (Br. 12) they intended to leave that specific three-step approach in place, even if they removed language to that effect from the actual bill and never said as much on the floor of Congress—but if post-enactment legislative history is not a legitimate guide to interpretation, see *Bruesewitz* v. *Wyeth LLC*, 562 U.S. 223, 242 (2011), surely post-enactment vouching is even worse.

Looking to the portions of the record that Zimmer and its amici do not discuss, all sides agreed—in the years leading up to the AIA and in the debate over the AIA itself—that enhanced damages should be available to punish and deter infringers who acted intentionally or recklessly based on what they knew (or should have known) about others' patents at the time.[4] As Senator Kyl put it in a statement eerily descriptive of the facts here,

> It is not uncommon that a manufacturer will find itself in a situation where it feels great pressure to copy a competitor's pa-

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*comm. on Intellectual Prop., Competition, & the Internet*, 112th Cong. 14, 31-32, 48, 57 (2011)).

[4] See, *e.g.*, Patent Reform Act of 2007, H.R. 1908, 110th Cong. at 29-31 (2007) (passed by House) (targeting deliberate copying); S. Rep. No. 111-18, at 53, 59 (minority views of Sens. Kyl, Feingold, and Coburn) (willfulness is present where defendant knew of patent, had no reason to believe it was invalid, and knew its own product was infringing).

> tented invention. * * * It can choose to continue to try to reproduce or substitute for the patented feature, and as it does so, continue to lose market share * * * . Or it can choose to infringe the competitor's patent. Treble damages are authorized in order to deter manufacturers from choosing the second option.

157 Cong. Rec. S1374 (daily ed. Mar. 8, 2011). Zimmer does not point to a single Member of Congress who argued for objective recklessness as the Federal Circuit currently understands and applies that requirement.

### 2. The Federal Circuit's Current Approach Is Not Drawn From *Safeco*.

Zimmer also argues (Br. 37-40) that the Federal Circuit's current approach flows from this Court's decision in *Safeco Ins. Co.* v. *Burr*, 551 U.S. 47 (2007). Because willfulness is a context-dependent term, the Federal Circuit should not have looked beyond its traditional meaning in the patent law. See Stryker Br. 45-46. Regardless, even under *Safeco*, there is no justification for immunizing intentional or reckless infringers simply because they develop an after-the-fact defense that the Federal Circuit, reviewing de novo, deems nonfrivolous. The Federal Circuit has made two crucial errors in interpreting *Safeco*. Correcting either mistake would allow enhancements in cases like this one that historically were at Section 284's very core.

a. First, the Federal Circuit has excised intent from the enhancement analysis, thereby limiting will-

fulness to recklessness alone.[5] Intent—which even Pulse concedes (Br. 37) represents an independent ground for finding willfulness—covers circumstances in which a wrongdoer either "desires to cause [the] consequences of his act" (purpose) or "believes that the consequences are substantially certain to result from it" (knowledge). 2 Restatement (Second) of Torts § 8A (1965) (Restatement). When a defendant deliberately copies a patented invention without any ground for believing the patent to be invalid, it has intentionally infringed. In such circumstances, there is no reason to ask whether the infringement might have been objectively reasonable (though still unlawful) under a legal theory that the defendant's counsel later developed at trial.

Pulse argues that an infringer cannot know its conduct is unlawful if there is an objectively reasonable defense—albeit one of which the infringer is not aware. But classic tort law uses belief interchangeably with knowledge, see Restatement § 8A & cmt. b; *Black's Law Dictionary* 888 (8th ed. 2004), and clearly a defendant may believe it is infringing even if it later discovers a non-sham defense. Moreover, *Safeco* itself recognizes that knowledge is not merely a subset of recklessness. 551 U.S. at 60 ("[A]ction falling within the knowing subcategory [of willfulness] does not simultaneously fall within the reckless alternative.").

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[5] Zimmer contends (Br. 38-39) that Stryker waived this argument by not raising it at trial. But in presenting arguments to the jury, Stryker obviously was bound by *Seagate*. As the district court recognized, Stryker nevertheless presented substantial evidence of intentional infringement. See Pet. App. 74a-75a, 78a-79a, 110a, 117a-119a.

Second, with respect to the recklessness aspect of willfulness, the Federal Circuit improperly measures the recklessness of a defendant's infringement based on the defenses proffered at trial or on appeal, not based on the facts available to the defendant at the time of its infringement. Looking to the defendant's knowledge at the time of its infringement does not convert recklessness into a subjective inquiry: the question remains how an objectively reasonable person would have acted in the face of such knowledge. See U.S. Br. 28-30; Jason A. Rantanen, *An Objective View of Fault in Patent Infringement*, 60 Am. U. L. Rev. 1575, 1588 (2011) ("[I]n the tort context, recklessness is an objective inquiry, but actor-centric, in that it is based on the facts that were available to the actor at the time.").[6]

b. Nothing in *Safeco* prevents the Court from correcting either of those mistakes. In *Safeco*, the parties offered two different interpretations of the relevant provision of the Fair Credit Reporting Act (FCRA). Although Safeco's reading was wrong, its reading "was not objectively unreasonable." 551 U.S. at 70. In a footnote, the Court observed that a defendant cannot be found willful for "follow[ing] an interpretation that could reasonably have found support in the courts, whatever [its] subjective intent may

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[6] Pulse agrees that "honest doubt" as to patent validity or infringement historically precluded a finding of willfulness. Br. 17, 39; see Stryker Br. 39 n.6. The phrase "honest doubt" itself speaks to a defendant's contemporaneous state of mind, and Pulse's cases confirm that the inquiry hinges on the facts known to the infringer at the time. See, *e.g.*, *Guyon* v. *Serrell*, 1 Blatchf. 244, 246 (C.C.S.D.N.Y. 1847); *Enter. Mfg. Co.* v. *Shakespeare Co.*, 141 F.2d 916, 921 (6th Cir. 1944); *Wilden Pump & Eng'g Co.* v. *Pressed & Welded Products Co.*, 655 F.2d 984, 990 (9th Cir. 1981).

have been." *Id.* at 70 n.20. Contrary to Zimmer's argument (Br. 39-40), the Court's observation does not mean that bad faith is irrelevant whenever a defendant later advances a reasonable position in litigation. The Court's discussion of the relevant facts repeatedly noted that Safeco had contemporaneously relied on its objectively reasonable interpretation. See, *e.g.*, *id.* at 68 ("Safeco did not give Burr and Massey any notice *because it thought* [the FCRA] did not apply to initial applications.") (emphasis added). The Court's reasoning in *Safeco* depended on the fact that the defendant had adopted the reasonable interpretation at the time of its alleged misconduct.

c. Petitioners' approach to willfulness is also consistent with this Court's earlier cases on willfulness in tort law more generally. In *United States* v. *Illinois Central Railroad Co.*, 303 U.S. 239 (1938), for example, the Court held that a defendant acts willfully when it "either intentionally disregards the statute or is plainly indifferent to its requirements." *Id.* at 243 (internal quotation marks omitted). Similarly in *United States* v. *Murdock*, 290 U.S. 389 (1933), the Court stated that willfulness is "employed to characterize a thing done without ground for believing it is lawful, or conduct marked by careless disregard whether or not one has the right so to act." *Id.* at 394-395 (internal citations omitted). It only makes sense to speak of "disregard[ing]" a risk or acting "without ground for believing [one's conduct] is lawful" if a defendant's intent or recklessness is assessed based on the facts available to the defendant at the time. Moreover, "evil motive," "wrongful purpose or intent," and "reckless indifference to the rights of others" are all well-established grounds for awarding punitive damages. 4 Restatement § 908(1) & cmt. b

(1979); *Smith* v. *Wade*, 461 U.S. 30, 51 (1983). The common law of punitive damages thus also focuses on a defendant's then-existing state of mind—not the defenses presented in litigation.

d. It is telling that so many of respondents' amici acknowledge that the conduct at issue in this case—deliberate copying, without any reasonable, contemporaneous belief of invalidity or noninfringement—must be eligible for enhanced damages. See, *e.g.*, Huawei Br. 20; Intel Br. 5; Internet Cos. Br. 18; Marvell Br. 9; Yahoo Br. 31. None of them offers any principled way to square that concession with the *Seagate* framework, nor could they. Once one correctly recognizes that the culpability of infringement is tied to what the infringer knew or should have known at the time, there is no reason to let after-the-fact defenses bar enhanced damages.[7]

### 3. The Federal Circuit's Current Approach Is Poor Policy.

Finally, Zimmer argues (Br. 45-51) that *Seagate* is good policy because it encourages challenges to questionable patents and helps businesses. Setting aside that policy considerations cannot trump clear statutory text, see *Cent. Bank of Denver, N.A.* v. *First Inter-*

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[7] Respondents wrongly contend that Stryker's approach would mark a return to *Underwater Devices*. The defendant, however, would not bear an affirmative duty of any kind. The burden would remain on the patentee to demonstrate its entitlement to enhanced damages, and the absence of a legal opinion could not be used to prove willfulness. 35 U.S.C. 298. As in many other contexts, the defendant could elect to use a legal opinion as a shield, but allowing defendants to introduce such evidence does not somehow shift the burden.

*state Bank of Denver, N.A.*, 511 U.S. 164, 188 (1994), Zimmer's policy arguments are misguided.

a. Although Zimmer contends that Section 284 serves only punitive purposes, it studiously ignores the role that provision plays in punishing and deterring culpable infringement. Zimmer does not dispute that other remedies generally do nothing more than restore patentees to their pre-infringement positions. As a result, firms can steal patented designs knowing that the cost of liability, discounted by the likelihood of detection, is lower than their potential profits. The prevalence of such infringement imposes enormous monitoring and deterrence costs on patentees. Zimmer's only response is that because copying and other forms of culpable conduct are supposedly rare, the fact that they may escape punishment is a "solution[] in search of a problem." Br. 51 (internal quotation marks omitted).

The premise of Zimmer's argument is questionable at best. Here, the jury and district court found that Zimmer acted in bad faith by deliberately copying Stryker's patented products (and Zimmer did not appeal that adverse finding on *Seagate*'s subjective prong). See Pet. App. 51a-52a.[8] In several other re-

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[8] Zimmer plays loose with the facts (Br. 3) by characterizing Stryker's patents as mere modifications on existing designs in a crowded field. Zimmer's business plan praised Stryker as a "[m]arket innovator[]" and conceded that Stryker's SurgiLav was "the first battery operated system on the market." J.A. 295-296. Zimmer misleadingly suggests (Br. 3) that it did not know of Stryker's patents until after its own products were released. Zimmer directly copied Stryker's patented products while the patents-in-suit were pending, see Pet. App. 117a; J.A. 37, 111, 193, and then made no modification when Stryker's patents-in-suit issued, despite being aware of them. See Docket Entry No. 406-2, at 4 (Mar. 22, 2013); Docket Entry No. 358, at 475:14-476:24 (Jan. 20, 2013). Even

cent cases, the Federal Circuit also has set aside enhanced damages awards against highly culpable infringers. See Stryker Br. 48. And of course district courts often decline to impose such enhancements in the first place because of *Seagate*. See, *e.g.*, *Minemyer* v. *R-Boc Representatives, Inc.*, 2012 WL 2155240, at *14 (N.D. Ill. June 13, 2012) ("[G]iven the defendants' credible non-infringement defenses, * * * the jury's finding [of willfulness] cannot stand under *Seagate* and its progeny. And sadly so given the defendants' egregious and clandestine copying.").[9]

Whatever the frequency of flagrant misconduct, punishing and deterring it is the very purpose of Section 284. The main practical difference between Stryker's and Zimmer's approaches is in those cases where the defendant engages in highly culpable infringement but nevertheless puts forth a nonfrivolous post hoc defense. In Stryker's view, those infringers should be eligible for enhanced damages at the discretion of district courts. Whether an infringer devises a

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six months after the jury verdict and over eight months after the district court's summary judgment as to infringement, Zimmer still had not changed its infringing product design. See Pet. App. 52a, 76a, 118a.

[9] Contrary to Zimmer's argument (Br. 42), "it does not take much" to satisfy *Seagate*'s objective recklessness prong. *Minemyer*, 2012 WL 2155240, at *11. A defendant only has to show that its defenses are not "objectively baseless," *iLOR, LLC*, 631 F.3d at 1377 (internal quotation marks omitted), or a "sham," *Halo* Pet. App. 64a. Because the presumption of validity plays no role in the inquiry, virtually any obviousness defense satisfies this threshold. The test is so easy to satisfy that in some cases defenses too implausible even to place before the jury are treated as sufficient to preclude a finding of willfulness. See *Carnegie Mellon Univ.* v. *Marvell Tech. Grp., Ltd.*, 807 F.3d 1283, 1302 (Fed. Cir. 2015).

plausible defense after committing the infringement has nothing to do with culpability. The Federal Circuit's current approach immunizes a large and arbitrary subset of the most culpable infringers, thus systematically underdeterring the worst forms of infringement.

b. Zimmer alarmingly predicts (Br. 48-51) that altering *Seagate* would lead to a flood of unwarranted damages enhancements. But the only data for that view are drawn from the years immediately preceding *Seagate*, when all parties agree that *Underwater Devices* had set too permissive a standard for enhanced damages. See Intel Br. 18. Neither respondents nor their amici point to any evidence that the traditional approach to enhanced damages was too lax. Respondents repeatedly refer to a "balance" between protecting property rights and promoting innovation, see, *e.g.*, Pulse Br. 44-45, but making enhanced damages virtually impossible to obtain is no balance at all. Stryker explained at length in its opening brief (at 37-42) why honest but accidental infringers historically were not, and should not be, subject to enhanced damages—to which respondents say not a word.[10]

c. Zimmer's more specific policy concerns likewise lack merit. For example, Zimmer argues (Br. 45-46) that *Seagate* is necessary to preserve the incentive to challenge weak patents. Under the traditional approach, however, a defendant who made an

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[10] Zimmer trumpets (Br. 40) the fact that the current regime often allows resolution of the willfulness issue at summary judgment. But it does so only by ignoring the statutory text and the relevant facts at the time of the infringement. It is hardly a virtue of the existing framework that even bad-faith copiers like Zimmer may be able to escape enhancement early in litigation.

informed decision to challenge a contestable patent was not subject to enhanced damages, absent some other misconduct (like subsequent concealment of the alleged infringement). Moreover, there are numerous steps a defendant can take to challenge patents without exposing itself to the threat of enhanced damages: petitioning for *inter partes* review, 35 U.S.C. 311-319; moving for reexamination, 35 U.S.C. 302; or requesting a declaratory judgment of invalidity, 28 U.S.C. 2201.

Zimmer inconsistently contends (Br. 47-48, 50) that altering *Seagate* would both force businesses to conduct costly investigations of potential infringement and discourage them from reading patents. Courts, however, can and should take into account the degree of notice that a defendant had of the infringed patent in assessing a defendant's response. See Stryker Br. 41. Defendants should not be subject to enhanced damages based solely on vague form letters from nonpracticing entities, see Pulse Br. 46-47, or for independently developing products and inadvertently overlooking infringed patents, see EMC Br. 16-17. Those types of infringement may be negligent and subject to ordinary damages, but they are not the sort of heightened misconduct that should render defendants eligible for enhancements.

In a last-ditch effort, Zimmer argues (Br. 49-50) that *Seagate* is necessary to prevent forum-shopping. That should be less of a concern given that, after *Seagate*, the Federal Circuit made it significantly easier to transfer venue. See *In re TS Tech USA Corp.*, 551 F.3d 1315, 1318 (2008). In any event, any statute that places discretion in the hands of district courts, whether with respect to fees under Section 285 or enhanced damages under Section 284, allows for some

variance in application. But the solution is not to preserve a convoluted, three-stage approach that lacks any basis in Section 284's text or history. Rather, this Court should allow district courts to resume considering the factors that historically guided their case-by-case exercise of discretion, prevented significant variance in outcomes, and achieved an actual balance between innovation and property rights.

### C. The Federal Circuit Has Erred In Its Burden Of Proof And Standard Of Review.

The applicable evidentiary burden and appellate standard of review are presented here, and, as it did in *Octane* and *Highmark*, the Court should provide guidance to lower courts by deciding them.

1. The Federal Circuit plucked the clear-and-convincing standard out of thin air in *Shatterproof Glass Corp.* v. *Libbey-Owens Ford Co.*, 758 F.2d 613, 628 (1985). In so doing, it did not address the fact that the preponderance standard typically governs in civil cases—including those involving "severe civil sanctions" such as antitrust trebling. *Herman & MacLean* v. *Huddleston*, 459 U.S. 375, 389-390 (1983); see *Octane*, 134 S. Ct. at 1758. Zimmer contends (Br. 52) that the clear-and-convincing standard is not at issue because that standard applies only to factual questions, and the objective-recklessness prong of *Seagate* is a legal question. To be sure, the Federal Circuit's use of a factual evidentiary burden (clear and convincing evidence) to evaluate what it treats as a legal question (objective recklessness) is a reason why its current approach is incoherent. But the Federal Circuit plainly uses the clear-and-convincing standard to evaluate objective recklessness, as it did in this case. See Pet. App. 21a.

2. Zimmer also contends (Br. 51-52) that the Federal Circuit's de novo standard of review for objective recklessness is not at issue, because the panel here stated that the district court's determination of willfulness would be reversible under any standard. See Pet. App. 22a n.6. But the panel's statement is belied by its analysis. According to the panel, the district court had failed to undertake *any* assessment of objective recklessness. *Id.* at 22a. The district court, however, spent several pages of its opinion addressing that precise issue. See *id.* at 76a-78a. The Federal Circuit ignored the district court's evaluation of willfulness as well as its underlying fact findings, and even relied on willfulness defenses that Zimmer had not raised in the trial court. This Court could reverse on that basis alone. See *Wilson* v. *Seiter*, 501 U.S. 294, 305 (1991) (reversing and remanding despite lower court's claim that it would have reached the same result even under the correct standard). Enhancement decisions were long reviewed under a unitary abuse-of-discretion standard, and it should be so once again.[11]

[11] Even if the Federal Circuit were correct that recklessness includes an objective prong that can be satisfied by post hoc defenses, de novo review still would be inappropriate. See *Bard Peripheral Vascular, Inc.* v. *W.L. Gore & Assocs., Inc.*, 776 F.3d 837, 848 (Fed. Cir. 2015) (Hughes, J., concurring).

## CONCLUSION

For the foregoing reasons and those stated in the opening brief, the relevant portions of the judgment of the court of appeals should be reversed or at a minimum vacated and remanded.

Respectfully submitted.

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